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ARAB STATES - ISRAEL: Arab leaders closed their summit conference in Algiers yesterday with a declaration praising Arab unity and reiterating the Arabs' basic conditions for a peace agreement. Talks between Egyptian and Israeli military representatives at Kilometer 101, suspended yesterday at Israeli request, are scheduled to resume this morning.

In a declaration notable for its moderate language, the Arab leaders yesterday affirmed that a lasting peace can come only when Israel withdraws from the occupied territories, "first and foremost Jerusalem," and restores the "established national rights" of the Palestinians. According to Arab League Secretary General Riad, the conferees also discussed Arab military preparedness, decided to provide Egypt and Syria with financial assistance, and resolved to continue the use of oil as a political weapon.

Riad told the press that in the future the Organization of Arab Petroleum Exporting Countries will determine the allocation of Arab oil to non-Arab countries on the basis of their "stand toward the Arab cause." For December, however, Japan, the Philippines, and most of Western Europe will be exempt from projected cutbacks because of their recent shifts to a more pro-Arab position. According to press reports, the Arabs also agreed to institute an oil boycott and sever diplomatic and economic ties with South Africa, Rhodesia, and Portugal. They have guaranteed the supply of Arab oil to African states that have broken diplomatic relations with Israel.

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At a press conference prior to his departure from Algiers yesterday, Egypt's President Sadat repeated recent Egyptian charges that the disengagement talks at Kilometer 101 are suffering from Israeli "evasion and stalling." Although he did not directly tie Egypt's participation in next month's peace conference to progress at the talks, Sadat

asked "how can we meet at a peace conference when firing is going on daily?" He added that a situation in which previous resolutions are not carried out does not facilitate work at a peace conference. According to radio Egypt, the President also indicated that he would review the matter of the cease-fire on his return to Cairo, and would contact the Soviet Union and the US about the implementation of the cease-fire resolution.

Leaders of Israel's ruling Labor Party held a day-long meeting yesterday to draft a party platform from which to seek a vote of confidence from the party's central committee. Press accounts of the final document suggest that it contains significant concessions to party doves, but is unyielding on basic security issues. The most obvious concession reportedly came in a provision calling for the "preservation of the Jewish nature of Israel"--shorthand for abandonment of the recently-favored policy of annexing occupied Arab territories. In addition, the document lists "striving for peace" as the central goal of the party and allows for some territorial concessions. Despite these elements, however, the new platform reportedly retains three basic tenets of party policy that are in fundamental opposition to Arab aims. These include Israel's refusal to return to pre-1967 borders, its insistence that Jerusalem remain united and under Israeli control, and its opposition to the establishment of an independent Palestinian state on the West Bank.

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Sporadic exchanges of small arms fire marred the cease-fire on both the Egyptian and Syrian fronts yesterday. The most politically sensitive of these violations occurred when an Israeli soldier was killed by sniper fire at the unloading point for supplies destined for the Egyptian Third Army.

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Further incidents could disrupt the movement of supplies to the Third Army.

An Israeli military spokesman stated yesterday that Israeli troops on the borders would remain on a high state of alert for at least another three months.

GREECE: In a radio and TV address yesterday, Prime Minister Androutsopoulos promised that his three-day-old government would draft a new constitution and lead the country to democratic rule, but held out little hope for early moves in this direction.

Androutsopoulos criticized the 1968 constitution for giving too much power to Papadopoulos and announced the removal of the underpinnings of the Papadopoulos regime--the 1968 constitution, the constitutional court, and the Supreme Council of Civil Servants. He said that until a new constitution was approved, power would be exercised by the cabinet through statutory acts promulgated by the ministerial council. He claimed that the military coup last Sunday was not a transfer of authority and that the regime did not want to perpetuate itself in power.

The Prime Minister said that elections would be held "when the country is ready." This is unlikely to be soon. Drafting a new constitution will be time-consuming. In addition, among the leaders of the 1967 coup that overthrew Greece's parliamentary system, Brigadier General Ioannidis and his group are probably the most apprehensive about an early return to democratic institutions. Ioannidis told a former minister that he favored free elections at the proper time but that parties representing Communists and leftists would be outlawed.

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As a gesture of good will, the new government has released most of the students arrested during the recent demonstrations. It has also returned certain expropriated land to farmers.

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A purge of some of Papadopoulos' supporters in the army and air force is under way, however.

Ioannidis said that his government will embrace all "politically clean young nationalists of the right and center." He has long been suspicious of the old-line politicians and has rejected any compromise with them. Ioannidis has disclaimed any personal ambition and said he would remain in his present position as military police chief.

The new government will probably turn its attention first to the deteriorating economic situation. Wholesale prices have increased at an annual rate in excess of 25 percent during 1973, and the rising prices have cut sharply into workers' real wages.

The new Prime Minister--described by the US ambassador in Athens as cautious and incorruptible, but limited in his ideas--has been having a hard time attracting experienced personnel to his government, and it is questionable whether the government has sufficient competence to deal with the difficult problems facing it. At present the regime is benefiting from a general euphoria resulting from Papadopoulos' removal from the government, but this may be short-lived.

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SOUTH KOREA: Student unrest is growing despite government countermeasures.

On 28 November, 3,000 students at a major women's university staged a sitdown protest near their campus after their march through the streets was halted by police using tear gas. Protests on other campuses are also continuing, despite the fact that many schools are officially closed or in the midst of final exams.

The students' efforts are being encouraged by some Christian groups which have been holding anti-government prayer meetings during the past week and calling for a reversal of the regime's "antidemocratic" policies. One Christian leader has indicated that church buildings throughout Seoul will be open to students for protest meetings if the government locks them out of their schools.

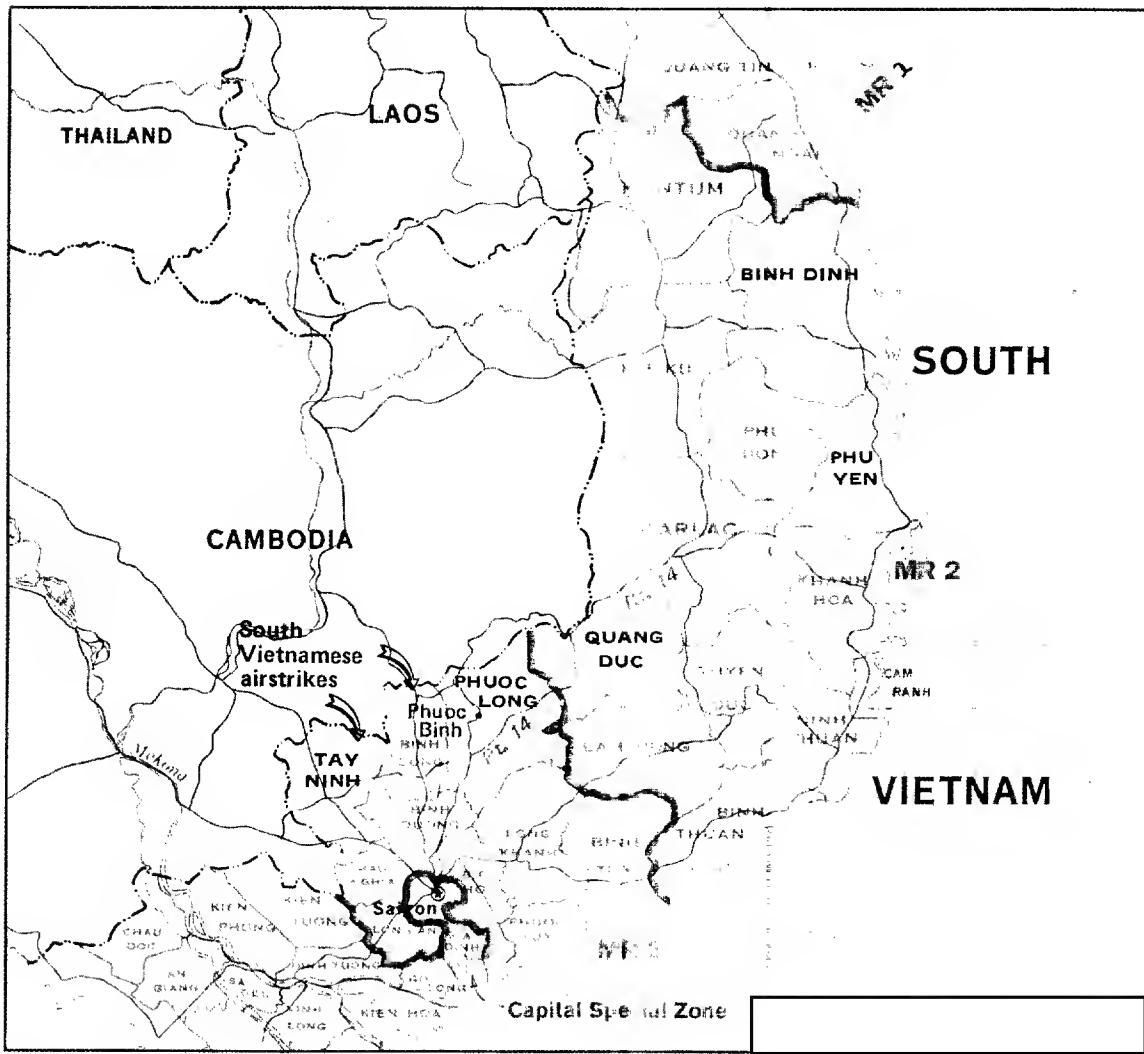
The government continues to respond to this activity without excessive use of force, but its concern is growing.

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The government's public concessions--a pledge to end CIA surveillance on campus and to remove one hard-line education official--have drawn little favorable response. Students and Christian leaders remain highly skeptical that the regime is disposed to make genuine concessions.

Protest activity seems likely to continue, but the regime should have no difficulty coping with it so long as the security forces do not inflame the situation with heavy-handed tactics. The students remain isolated, and active support for their cause is still limited to small, but influential, Christian and intellectual organizations.

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SOUTH VIETNAM: Both Saigon and the Communists continue to raise the military ante in the highlands and the region north of Saigon. South Vietnamese aircraft struck hard at major Communist command complexes in the border provinces north of the capital twice during the past week. Moreover, commanders in Military Regions 2 and 3 plan to step up ground actions against Communist bases and troop concentrations north of Saigon and in the highlands.

The government's willingness to resort to large-scale military action undoubtedly reflects its growing concern over recent Communist moves in these areas. North Vietnamese troops in Quang Duc Province have heavily fortified their recent gains along Route 14 and have given every indication that they are as determined to hold the newly captured terrain as the government is to retake it. North of Saigon, two North Vietnamese infantry regiments have been detected within striking distance of the Phuoc Long provincial capital, which is now wholly dependent on air resupply because of the Communist interdiction of Route 14.

Saigon's moves in both regions are being watched closely by the Communists, who seem well informed on the government's intentions. [redacted]

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As the government transfers most of its main-force units to the highlands from Binh Dinh and Phu Yen provinces, the Communists will be aware of weakened defenses in coastal areas and could take advantage of these weak points.

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Recent government actions have not provoked the sort of military retaliation that was triggered by earlier air strikes. Although the Communists will doubtless strongly oppose government operations that seriously impinge on Communist territory, they may choose to husband their resources rather than react to every South Vietnamese action.

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CYPRUS-TURKEY: Ankara plans to deliver weapons to the Turkish Cypriots, should Archbishop Makarios go through with plans to bring new arms into Cyprus.

There has been a spate of rumors and press reports recently about Cypriot arms purchases from Prague.

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A Turkish Foreign Ministry official informed the US Embassy on 27 November that his government would call immediately for UN custody of any new arms shipments and for their subsequent removal from the island. At the same time he said that Ankara has developed a capability to deliver arms by airdrop, that the arms are ready to be sent, and that the Turkish Government has informed Athens of its intentions in an "indirect but unmistakable" fashion. The official probably provided this information in the hope that the delivery of the Czechoslovak weapons could be prevented by UN action, but the embassy believes the Turkish Government is ready to move unilaterally to stop the delivery.

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The last sizable arms deal by Cyprus was in January 1972. Strong protests from Greece and Turkey followed, and Makarios eventually turned most of the arms over to UN control. New arms imports at this time would be particularly disturbing to Ankara, which fears that the weapons would be turned against Turkish Cypriots should there be another intercommunal confrontation.

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Soviet Oil Problems

Moscow is experiencing some tightening of oil supply because of problems in oil drilling and production, but the threat of a crisis similar to that facing the West is not imminent. Over the next four years the USSR should be able to produce enough oil to meet domestic needs and to provide sizable exports to Eastern and Western Europe. Unless major problems are solved, however, the Soviet Union may have to rely on foreign oil in the 1980s to meet part of its steadily growing domestic demand.

During the past few months, reports of strains in meeting domestic oil needs and export commitments have emanated from Moscow. Soviet oilmen recently indicated that the USSR cannot now produce and refine enough oil to satisfy both domestic demand and contractual agreement with CEMA countries. During the recent Arab-Israeli conflict, the USSR was forced to reduce deliveries to Italy, evidently to compensate Eastern Europe for a partial cutoff of Iraqi oil exports. Although the USSR values its reputation as a reliable exporter to the West, in this instance it apparently gave priority to the needs of Eastern Europe--primarily Bulgaria, which depends on Iraqi oil, much of it obtained on Soviet account, for almost half of its oil supply. The USSR is also running behind schedule on deliveries of oil to France and West Germany, but even before the Middle East crisis Soviet deliveries of oil have, at various times, been over or under the amounts stipulated in contracts. It is possible, however, that reduced availability of Middle Eastern oil to Eastern Europe is forcing the USSR to make up the difference at the expense of Western Europe. It is also possible that Moscow is withholding oil from Western Europe to get higher prices and to increase hard currency earnings, especially to compensate for higher prices now being charged for Middle East oil that the USSR purchases. Any inference of a crisis at this time is exaggerated. The Soviet Union is a net exporter of about 2 million barrels per day (b/d), almost one fourth of its total output. Nevertheless, Moscow has little, if any, uncommitted oil.

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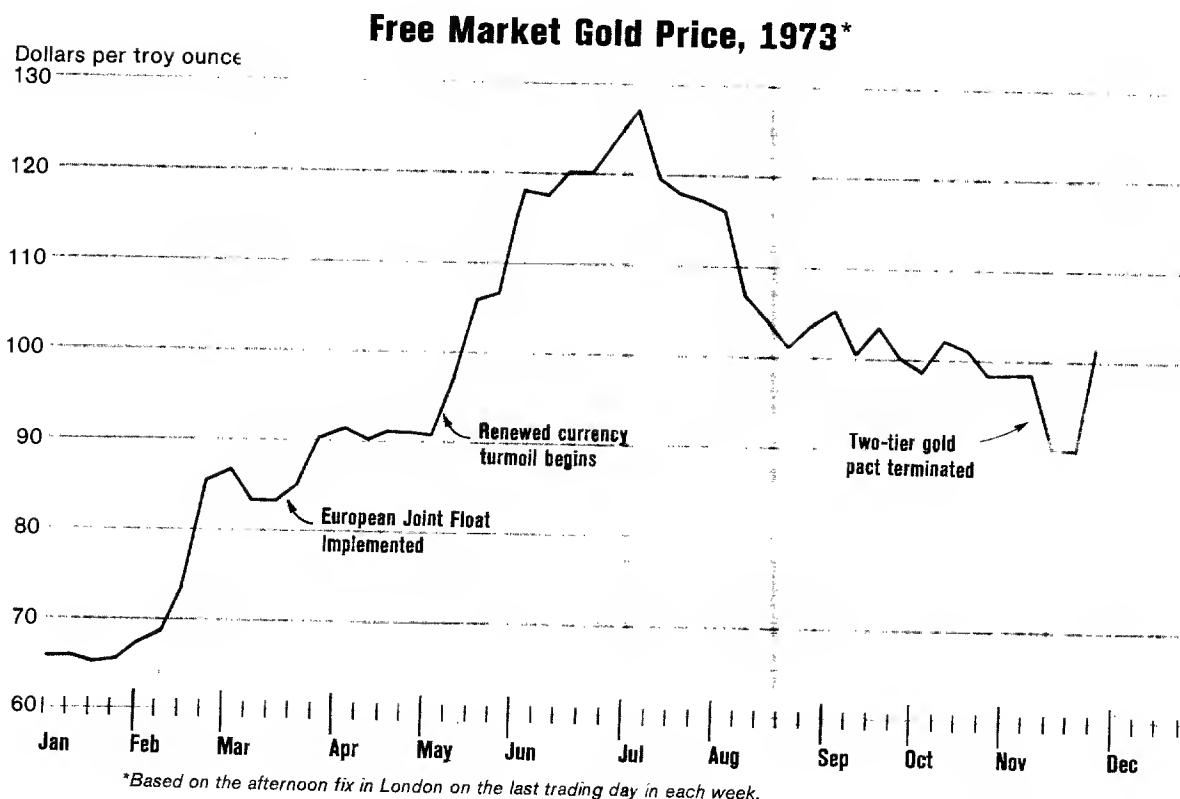
Major problems, however, do confront the Soviet petroleum industry. About half of the 35-40 billion barrels of proved and probable reserves of oil are located in permafrost areas, where exploitation is difficult and costly. Large, older fields near consumption centers are being depleted more rapidly than expected, and the USSR is being forced to accelerate development of oilfields in western Siberia, where domestic equipment and technology are inadequate. A Soviet economic journal has charged the petroleum industry with lack of planning for western Siberia and failure to establish adequate support facilities, such as electric power, railroads, roads, and worker housing.

To meet the 1975 production goal, new crude oil production capacity during 1971-75 will have to increase by some 25 percent more than originally planned. This will entail a considerable increase in drilling, presumably mostly in western Siberia. The Soviet record in fulfilling drilling plans has been poor in the past, and this new requirement is imposing an additional strain on the oil industry. Crude oil production this year is running below plan, which already has been revised downward from 8.6 million b/d to 8.5 million b/d. It is unlikely that the original oil production target of 9.9 million b/d in 1975 will be attained.

In the long run, the USSR may have to depend on Western technology and equipment to solve many of the problems confronting the petroleum industry. During the past three years, Soviet orders for the purchase of Western equipment and technology have exceeded \$400 million. One of the critical needs is for modern exploration equipment to locate new reserves, especially in Siberian regions. Such equipment should be acquired now if it is to have any effect on increasing oil production during the balance of the 1970s.

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Gold: The price of gold rose sharply to \$101.50 an ounce yesterday from \$92 on Tuesday. New uncertainties in monetary markets, heightened by changes in Arab oil policy toward the West, and a lack of central bank gold sales, despite agreement removing restrictions on such sales, lured buyers back to the market after a two-week hiatus. Reports that the Soviet Union has not sold gold in recent weeks, after months of regular sales, also contributed to the price surge.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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